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Summary:

Riverside County Infrastructure Financing Authority, California Riverside County; Appropriations; General Obligation; Joint Criteria

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Credit Profile

US\$70.995 mil lse rev rfdg bnds (Riverside Cnty) (Cap Imp Proj Rfdg) ser 2015A due 11/01/2037

Long Term Rating AA-/Stable New

Riverside Cnty ICR

Long Term Rating AA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to the Riverside County Infrastructure Financing Authority, Calif.'s series 2015A lease revenue refunding bonds, issued for Riverside County. At the same time, Standard & Poor's affirmed its 'AA' issuer credit rating (ICR) on the county and its 'AA-' long-term rating and underlying rating (SPUR) on all pension obligation bonds (POBs), lease revenue bonds, and certificates of participation (COPs) issued for the county. The outlook is stable.

Finally, Standard & Poor's affirmed its 'AAA/A-1+' rating on Riverside County Asset Leasing Corp.'s variable-rate demand leasehold revenue refunding bonds, series 2008A (Southwest Justice Center refunding), issued for the county. The rating reflects the application of our joint support criteria and the medium correlation between the county and the letter of credit provider, Wells Fargo Bank N.A. (AA-/A-1+).

The 2015 lease revenue refunding bonds are secured by base rental payments made by the county, as lessee, to the Riverside County Infrastructure Financing Authority, as lessor, for the use and possession of leased assets, through a lease-leaseback structure, whereby the county will make periodic base rental payments sufficient to amortize the lease revenue bonds. The county has covenanted to budget and appropriate base rental payments for the use of the leased assets. Payments are triple net, without right of set-offs, and the county is responsible for maintenance, taxes, and utilities. The county may abate base rental payments in the event of damage to or the destruction of the assets. To mitigate abatement risk in such a case, the county has covenanted to maintain rental interruption insurance coverage equal to the maximum lease payments due in any 24-month period. In addition, we evaluated the seismic risk of each leased asset pursuant to our criteria and estimated that none of the leased assets has a greater than 5% probability of incurring 25% damage during the life of the bonds. The leased assets include a mix of public safety structures, fleet operations, and a fire station. The county does not expect to have a debt service reserve on the bonds, but base rental payment dates occur on Oct. 15 and April 15, more than 90 days after the start of the county's fiscal year, and we believe that this mitigates payment risk associated with late budget adoption.

For existing debt, the county's lease revenue bonds are secured by base rental payments to be made by the county for the use and occupancy of certain leased premises. The county has covenanted to budget and appropriate base rental payments to meet its obligations under the lease agreements supporting the lease revenue bonds. The COPs have an interest in the county's base rental payments, which the county covenants to budget and appropriate.

The POBs are secured by any available sources of the county's general fund revenue, based on the county's absolute and unconditional obligation to make debt service payments.

The series 2015A lease revenue refunding bond proceeds will refinance certain outstanding obligations of the county, including its series 2005A, 2005B, and 2006A COPs.

The ratings reflect our assessment of the following factors for the county, specifically its:

- Adequate economy, with access to a broad and diverse Inland Empire and greater Southern California economy;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with balanced operating results in the general fund but an operating deficit at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 9.9% of operating expenditures;
- Very strong liquidity, with total government available cash of 35.7% of total governmental fund expenditures and 9.3x governmental debt service, and access to external liquidity we consider exceptional;
- Adequate debt and contingent liability position, with debt service carrying charges of 3.8% of expenditures and net direct debt that is 82.2% of total governmental fund revenue; and
- Strong institutional framework score.

Adequate economy

We consider the county's economy adequate. Riverside County, with an estimated population of 2.3 million, is located in the Riverside-San Bernardino-Ontario metropolitan statistical area, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 79.3% of the national level and per capita market value of \$99,393. Overall, the county's market value grew by 8.7% over the past year to \$229.5 billion in 2015. The county unemployment rate was 8.2% in 2014. Unemployment in Riverside County has historically trended above the state level, although it fell below 10% in 2014.

Very strong management

We view the county's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The county's revenue and expenditure assumptions are well grounded and include the use of internal and external inputs and data. This also includes close consideration of state legislative decisions and budget revisions. The county looks at its budget throughout the year, including quarterly budget-to-actual analysis. In addition, the county does long-term forecasting with annual revisions. The county examines its capital improvement plan as least annually, going out five years, and identifies sources of funding for at least the current and subsequent year. The county has a formal investment policy with a quarterly oversight committee and annual investment audit. The county has a formal debt policy that addresses the use of variable rate, swaps and derivatives, and criteria for debt issuance. The county

has a policy of maintaining economic uncertainty funds at no less than 15% of ongoing discretionary revenue, with additional contingency funds of \$20 million (approximately 2.9% of discretionary revenue). Economic uncertainty funds are used only for emergencies (and are thus rarely used), but contingency reserve balances are often used but are subsequently restored. In our opinion, management's proactive financial management practices--for example, taking midyear action to mitigate a decline in revenue--have helped the county's financial performance in recent years.

Adequate budgetary performance

Riverside County's budgetary performance is adequate in our opinion. The county had balanced operating results in the general fund of 0.2% of expenditures, but a deficit result across all governmental funds of 3.6% in fiscal 2014. General fund operating results of the county have been stable over the last three years, with a result of 0.9% in 2013 and a result of negative 0.5% in 2012.

This fiscal 2014 ending result was very close to management's projections and we believe continues the county's recent trend of closely monitoring its budget. The county's estimated fiscal 2015 general results indicate another slight (1.1%) surplus in the general fund, which is better than the budgeted deficit of roughly 1.7%. On the revenue side, property taxes (the largest discretionary general fund revenue) and vehicle in-lieu fees trended above budget.

The county's 2016 recommended budget indicates a slight (\$47 million) deficit in the general fund, with the use of some one-time resources to finance ongoing expenditures. At the time of budget adoption, the county assumed a total of \$35.5 million for contingencies (about 1% of budgeted expenditures) and roughly double that amount (\$66 million) in one-time revenue that includes state reimbursements and the use of Prop 172 reserves for public safety.

Based on historical budgetary performance, we expect fiscal 2016 results to end slightly ahead of budgeted expectations. However, over the medium term we anticipate discretionary budget pressure stemming from negotiated salary and benefit increases and the opening of a new detention facility. In the absence of additional discretionary revenue to finance ongoing cost increases related in part to the new East County Detention Center, the county may need to take action in the next two to three years to avoid a structural deficit.

Strong budgetary flexibility

Riverside County's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 9.9% of operating expenditures, or \$244.0 million.

This includes committed funds set aside that can be used with the board's discretion, as well as a combined \$175 million (roughly 6%) in reserves designated for budget stabilization and economic uncertainties. Based on projected results for fiscal 2015, the county is expecting a similar reserves-to-expenditures level as the prior year, which level will maintain the county's strong budgetary flexibility. The county does not plan to significantly alter reserve levels in fiscal 2016; we expect financial performance to lead to similar fund balances and flexibility next year.

Very strong liquidity

In our opinion, Riverside County's liquidity is very strong, with total government available cash of 35.7% of total governmental fund expenditures and 9.3x governmental debt service in 2014. In our view, the county has exceptional access to external liquidity if necessary.

The county is a frequent issuer of both short-term (commercial paper and tax and revenue anticipation note) as well as

long-term (appropriation, POB, and special assessment) debt, and as such we consider its access to external liquidity to be exceptional. More than 99% of the county's cash is invested with the county treasurer's pooled investment fund (TPIF), which we do not consider aggressive. The TPIF, which we do not rate, consists primarily (75% or more) of investments with a weighted average maturity of under one year and with individual ratings of at least 'AA-'.

Adequate debt and contingent liability profile

In our view, Riverside County's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.8% of total governmental fund expenditures, and net direct debt is 82.2% of total governmental fund revenue.

The county's former conduit issuer (County of Riverside Asset Leasing Corp., or CORAL) has an interest rate swap on its 2008A variable-rate lease revenue bonds. Under the swap agreement, the counterparty (Wells Fargo N.A.) could terminate if the 2008 bond rating fell below 'BBB+/Baa1', a risk we currently view as remote.

The county closely monitors its retirement obligations, and contracts with a third-party consultant to prepare actuarial projections for pension and OPEB funding status and anticipated rate changes. The county's most recent (June 2015) report projects that the actuarial funded status of the California Public Employees' Retirement System's miscellaneous plan will be 85.1%, and that newly implemented employer rate changes will increase annual pension contributions over the next five to six years, with projected declines thereafter.

Riverside County's combined pension and other postemployment benefits (OPEB) contributions totaled 6.9% of total governmental fund expenditures in 2014. The county fulfilled its annual required pension contribution in 2014.

Based on data provided in the county's fiscal 2014 audit, the county has an \$17.1 million other postemployment benefits (OPEBs) unfunded actuarially accrued liability with a 61% funded ratio. This liability has further decreased according to the county's 2015 pension report, which cites an 85% funded ratio for the OPEB trust largely as a result of county-contributed funding, investment performance, and the phase-out of an implicit subsidy for certain retirees. .

Strong institutional framework

The institutional framework score for California counties required to submit a federal single audit is strong.

Outlook

The stable outlook reflects our anticipation that the county's economy will remain adequate, and that its strong financial management practices will help it maintain at least adequate financial performance over the two-year outlook horizon.

Upside scenario

We could raise the rating over the next two years should the county's projected financial performance improve and its economic indicators, including income levels and per capita market value, move squarely within the range of what we consider strong relative to peers.

Downside scenario

Although we do not anticipate doing so within the next two years, we could lower the rating in case of a substantial deterioration in the county's financial performance and flexibility, or its economy, to levels we consider inconsistent

with those of peers.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: The Interaction Of Bond Insurance And Credit Ratings, Aug. 24, 2009
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, Feb. 20, 2015
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009

Related Research

Institutional Framework Overview: California Local Governments

Ratings Detail (As Of September 29, 2015)		
Riverside Cnty certs of part (Family Law Court Rfdg) ser 2005B		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty rfdg COPs		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty COPs (Larson Justice Ctr Rfdg) ser 2009B		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty POBs ser 2005A		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty (Cap Facs Proj)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Riverside Cnty certs of part (Cap Imp & Family Law Court Rfdg Projs)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Riverside Cnty certs of part (Historic Court Rfdg) ser 2005C		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Riverside Cnty certs of part (Pub Safety Communication Proj) ser 2007A		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Riverside Cnty COPs ser 2006A		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Riverside Cnty POBs		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Ratings Detail (As Of September 29, 2015) (cont.)

Riverside Cnty Asset Lsg Corp, California

Riverside Cnty, California

Riverside Cnty Asset Lsg Corp (Riverside Cnty)

Long Term Rating AA-/Stable Affirmed

Riverside Cnty Asset Lsg Corp (Riverside Cnty)

Long Term Rating AA-/Stable Affirmed

Riverside Cnty Asset Lsg Corp (Riverside Cnty) certs of part (Historic Courthouse Proj) ser 2003A

Long Term Rating AA-/Stable Affirmed

Riverside Cnty Asset Lsg Corp (Riverside Cnty) lse rev bnds (pub defender and info technol bldg projs)

Long Term Rating AA-/Stable Affirmed

Riverside Cnty Asset Lsg Corp (Riverside Cnty) lse rev bnds (Cnty of Riverside Cap Proj)

Long Term Rating AA-/Stable Affirmed

Riverside Cnty Asset Lsg Corp (Riverside Cnty) lse rev bnds (County Of Riverside Cap Proj)

Long Term Rating AA-/Stable Affirmed

Riverside Cnty Asset Lsg Corp (Riverside Cnty) VRDB ser 2008A (ASSURED GTY)

Long Term Rating AAA/A-1+ Affirmed

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Riverside Cnty Asset Lsg Corp (Riverside Cnty) leasehold (Cnty of Riverside Hosp Proj) ser 1997C (RMKTD)

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Riverside Cnty (Riverside Cnty Asset Lsg Corp) rfdg certs of part (Cap Facs Proj) ser 2003B dtd 12/04/2003 due 11/01/2004-2018

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Riverside Cnty Palm Desert Fincg Auth, California

Riverside Cnty, California

Riverside Cnty Palm Desert Fincg Auth (Riverside Cnty) lse rev Bonds ser 2008A

Long Term Rating AA-/Stable Affirmed

Riverside Comnty Properties Dev, Inc., California

Riverside Cnty, California

Riverside Comnty Properties Dev, Inc. (Riverside Cnty) lease rev bnds ser 2013

Long Term Rating AA-/Stable Affirmed

Southwest Comntys Fing Auth, California

Riverside Cnty, California

Southwest Comntys Fin Auth (Riverside Cnty) lse rev bnds (Cnty Of Riverside Cap Proj) ser 2008 A

Long Term Rating AA-/Stable Affirmed

Many issues are enhanced by bond insurance.

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